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경영학석사 학위논문

# The Internationalization Processes and Strategies of Chinese Mobile Payment Companies:

A Case Study on Alipay and Wechat Pay

중국 모바일 결제 기업의 국제화 과정 및 전략에  
관한 사례연구: 알리페이와 위챗페이를 중심으로

2019년 8월

서울대학교 대학원

경영학과 전략/국제경영 전공

서 빙 선

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# Abstract

## The Internationalization Processes and Strategies of Chinese Mobile Payment Companies : A case study on Alipay and Wechat Pay

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The internationalization of Chinese mobile payment companies represents a new phenomenon in the mobile payment industry. This paper analyzes the internationalization processes and strategies of Chinese mobile payment companies specifically in terms of the aspects of speed, geography and entry mode. By conducting a case study on two representative Chinese mobile payment companies - Alipay originating from Alibaba's e-commerce business and Wechat Pay originating from Tencent's messaging app, this paper reveals that Chinese mobile payment companies tend to speed up their internationalization processes when facing fiercer domestic competition and fast internationalization of their main competitors. This paper also suggests that target customers have important influence on the internationalization processes of Chinese mobile payment companies, since their internationalization speed, market choices and entry mode choices differ when targeting different groups of customers (outbound Chinese tourists or local people).

The paper further proposes that such relationship also works for other consumer firms (B2C firms).

This paper contributes to the development of the theories on mobile payments and firms' internationalization processes, and also provides important implications for other global mobile payment companies and the worldwide governments.

**Keyword:** Mobile payments, Internationalization process, Internationalization speed, market choice, entry mode choice, target customer, Alipay, Wechat Pay

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# 1. Introduction

## 1.1. Research background

Since late 1990s, the rapid development of mobile payments has been disrupting the traditional business models of the payment industry. The so-called mobile payments, also known as “m-payments”, refer to the payments for goods, services, and bills with a mobile device by taking advantage of wireless and other communication technologies (Dahlberg et al., 2008). So far, hundreds of mobile payment services have been introduced across the world, and these cheaper, faster and convenient services are gradually revolutionizing the way people make payments. About 2.07 billion customers worldwide are expected to use a mobile wallet to make a purchase or send money in 2019, which is up nearly 30 percent from the 1.6 billion customers recorded at the end of 2017<sup>1</sup>.

Moreover, mobile payment use is growing much faster in emerging countries than in developed countries. In particular, China is currently the largest adopter of mobile payments. The transaction amount of the mobile payments in China has increased rapidly from \$1.4 trillion in 2013 to more than \$29 trillion in 2017<sup>2</sup>. Mobile payments are driving China to march to be the world’s first cashless society.

Alipay and Wechat Pay, backed by two internet giants, Alibaba and Tencent, are the two leading mobile payment service providers in China. They together account for more than 90% of China’s mobile payment market, with Alipay taking up nearly 54% and Wechat Pay handling another 39%<sup>3</sup>. More importantly, they have been seeking to expand their services into the broad global markets with diverse strategies. The internationalization of these firms not only benefits the outbound

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<sup>1</sup> Mark Gerban, “Mobile Wallet Trends”, Global Acceptance Transaction Engine (GATE), 2019.03.26

<sup>2</sup> Evergrand Research Institute, “中国移动支付报告: 领跑全球 前景广阔”, 2018.12.11

<sup>3</sup> “China’s mobile payment market fourth quarter growth dwindled”, *technode*, March 28, 2019

Chinese tourists, but may also have an important influence on the local payment and financial markets.

However, the literature on mobile payment has not seen significant developments since its inception in the late 1990s. Most researchers have continued to unnecessarily focus on the same topics (technology and consumer adoption) with a limited accumulation of new knowledge and similar findings (Dahlberg et al., 2015). Moreover, despite the great research opportunities offered by the emerging phenomenon of Chinese mobile payment companies' internationalization, researches on this topic are still very limited with a major focus on describing the background and current situation of these firms' global expansion. Some researchers also started to analyze the motivation aspect as well as their entry mode choices in certain countries, while their internationalization processes and strategies are still in lack of systematic investigations.

## **1.2. Research objectives**

In general, the purpose of this paper is to understand the internationalization processes and strategies of Chinese mobile payment companies. Specifically, the research questions are as follows:

- (1) How do Chinese mobile payment companies internationalize in terms of speed, geography, and mode of entry?
- (2) What are the similarities and differences of the internationalization strategies between different types of Chinese mobile payment companies (Alipay vs. Wechat Pay)?
- (3) What are the competitive advantages of Chinese mobile payment companies that enabled their internationalization?



By answering these questions, this paper aims to achieve theoretical contributions as well as to provide practical implications.

In terms of theoretical contributions, firstly this paper contributes to the establishment of the literature on mobile payments. In general, the literature on mobile payment is still at its initial stage of development with researchers continuously focusing on a few limited topics for decades. There is a particular lack of researches on the internationalization of mobile payment companies, and therefore studying the internationalization of Chinese mobile payment companies could deepen the understanding of this topic as well as increase the research diversity of mobile payment literature.

Moreover, this paper also contributes to improving the understanding about firms' internationalization processes. The extant Uppsala Model explains the slow and incremental internationalization process of firms and emphasizes the importance of psychic distance. However, this paper reveals that target customer is another important factor that could influence the consumer firms' internationalization processes in terms of speed, market choices and entry mode choices. In other words, consumer firms may choose different types of markets, and may choose different entry modes into one market when targeting different groups of customers. Their internationalization speed is also influenced by the target customers since they would face different levels of difficulties when targeting different groups of customers.

As for practical implications, the internationalization processes and strategies of Chinese mobile payment companies could offer important guidance for other mobile payment companies that are seeking internationalization. In particular, since the two focal companies of this paper – Alipay and Wechat Pay – separately represent the third-party mobile payment platforms that originate from e-commerce platforms

(e.g. Amazon Pay, HelloPay) and instant messaging applications (e.g. Kakao Pay, Line Pay, WhatsApp Pay), this study could provide more specific insights for reference for other firms of the same types.

Moreover, this paper also reminds the worldwide governments of the urgency to establish the regulations related to mobile payment industry, since foreign mobile payment companies may expand into their markets even before the relevant regulations are introduced. The research findings also suggest that the governments should deal with the global expansion of Chinese mobile payment companies cautiously by evaluating both the risks and benefits brought by these firms for the development of the local payment markets.

## **2. Literature Review**

### **2.1. Theories of Internationalization**

The early theories of firms' internationalization were introduced by researchers in the 1960s and 1970s (Andersen et al., 2014). Since then, this topic has been studied under various theories and different perspectives. The most notable studies included the following seven streams (Rugman et al., 2011; Santos et al., 2015): Monopolistic Advantage Theory, Eclectic Paradigm, Internalization & Transaction Cost Theory, Resource Based View, Institutional Theory, Uppsala Model, and International New Ventures & Born Global Theories. Among these theories, the Eclectic Paradigm typically represents an economic approach to internationalization, while the Uppsala Model represents the most cited behavioral theory. The following parts would give an introduction about these two major theories.

#### **2.1.1. Eclectic Paradigm**

The Eclectic Paradigm, also known as OLI Paradigm, was introduced by Dunning (1977) to explain the different forms of international production and the selection of different countries for FDI (Ruzzier et al., 2006). This theory integrated several streams of theories on cross-border activities at the country and firm levels to explain FDI.

According to Dunning (1977, 1988, 1998), the internationalization of economic activity is determined by the realization of three types of advantages including ownership advantages (O), location advantages (L), and internalization advantages (I). Ownership advantages reflect the firm-specific resources that are related to the accumulation of intangible assets, technological capabilities or product innovations. Location advantages refer to the country-specific advantages that make some countries more attractive than other ones such as the availability of resources,

institutional environment, market structure, etc. Internalization advantages reflect the benefits of managing and coordinating activities internally instead of via contractual arrangements with outside partners.

The Eclectic Paradigm is considered to represent the most comprehensive framework to explain foreign entry mode choices and the economic efficiency implications thereof (Rugman et al., 2011). However, it was also criticized to have internal and external validity problems (Li, 2007) as well as statistical and causality problems (Cumberland, 2006).

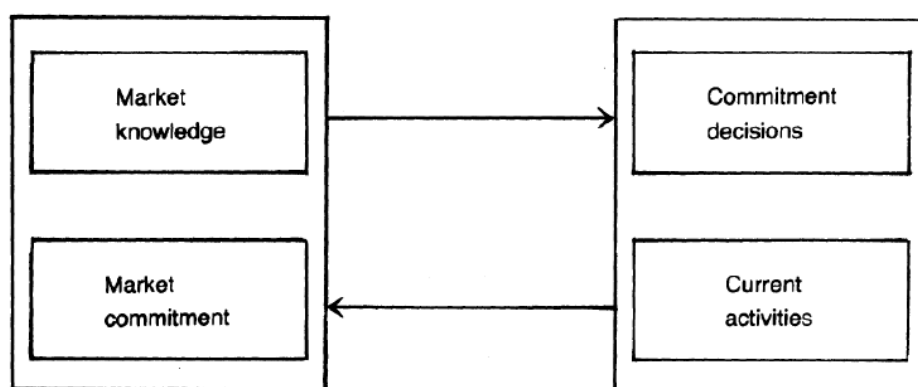
### 2.1.2. Uppsala Model

The Uppsala Model formulated by Johanson and Vahlne in 1977 is typically regarded as the seminal model by the researchers interested in the internationalization process of a firm (Welch et al., 2016).

Like other theories, the Uppsala Model also has several important assumptions. According to Welch et al. (2016), the most important assumption is that lack of knowledge about foreign markets and operations “is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad”. The second important assumption is about the objective of the firm, namely that it “strives to increase its long-term profit, which is assumed to be equivalent to growth”. The third fundamental assumption is that the firm “is also striving to keep risk-taking at a low level”, although risk is considered to be relative and therefore what is considered low may vary depending on the context and decision-maker.

In general, the Uppsala Model seeks to explain the slow and incremental internationalization process of firms, which attempt for growth and long-term profit

trying at the same time to keep the risk taking at a low level. This model is said to be a “dynamic model” because it argues that the present state of internationalization – “market knowledge” about foreign markets and “market commitment” to foreign markets – would influence the future steps of the firm’s internationalization. And the present state is a product of the firm’s past activities in foreign markets and its prior decisions to commit resources to foreign operations. This mechanism is illustrated in Figure 1.



**Figure 1:** The Basic Mechanism of Internationalization -State and Change Aspects<sup>4</sup>

As shown in the previous figure, market knowledge and market commitment interact with commitment decisions and current activities respectively, which in turn change knowledge and commitment (Pereira, 2015). This mechanism shows that internationalization is a series of interconnected “decision situations” rather than an isolated resource allocation problem. This shift from conceiving internationalization as a state to a change process is the basis for the model’s contribution to the field (Welch et al., 2016).

According to the Uppsala Model, firms start exporting when they have a strong domestic base and the exportation occurs in stages. Companies would first start

<sup>4</sup> Source: Johanson & Vahlne, 1977

exporting to foreign markets through an agent. Later they would establish a sales subsidiary, and finally they may begin the production in that country (Pereira, 2015). As for the choice of markets, it also occurs in stages and it's related to the psychic distance – differences from the home country such as language, education and business practices. Firms often start exporting to foreign markets with a close psychic distance and later expand into more distant countries.

Johanson and Vahlne (2009) have also written an article with a revised version of model focusing on the importance of networks in the internationalization process. While the key change mechanism illustrated by the original model remained in the later versions, there major advances were made in order to establish a more general model of firm internationalization (Welch, 2016).

First, with the recognition of the relationship development as a bilateral process between two parties who make a mutual commitment, the new model believes that successful internationalization requires mutual commitments between the involving firms. In the revised model, Johanson and Vahlne (2009) point out that experiential knowledge in internationalization is accumulated and shared. The available relevant knowledge base extends beyond firm boundaries and is nested in relationships and networks.

Second, although experiential knowledge remains central to the model, there has been recognition that learning-by-doing can be supplemented by other forms of knowledge acquisition, such as acquisition of another firm, imitative learning from competitors as well as learning from network partners (Forsgren et al. 2015).

Third, the revised version of the model believes that learning-by-doing drives internationalization not only because it enables the reduce of uncertainty for the firm, but also because it's the way through which new market opportunities could be

identified. A firm's "opportunity horizon" would be extended as its network being extended through international operations.

Although the Uppsala Model has been the dominant model of the internationalization process in the field of international business, it has also been criticized by many scholars as deterministic (Reid, 1981) and being inappropriate to explain the internationalization of new ventures because these firms are international from their birth (Oviatt & McDougall, 1994).

## **2.2. Researches on multinationals from emerging markets (EMNEs)**

### **2.2.1. The emergence of EMNEs and the ongoing debate**

Recent years have witnessed the rise of a growing number of emerging market multinational enterprises (EMNEs) in a variety of industries. According to the World Investment Report 2018 by UNCTAD, outward foreign direct investments from developing and transition economies reached \$381 billion in 2017, accounting for almost 30% of global outflows.

In general, there have been three distinct waves of FDI from EMNEs (Amighini et al., 2015). The first wave occurred between the 1960s and the early 1980s when Latin American firms actively investing in other developing countries with market and efficiency-seeking objectives (Andreff, 2003). And the most active firms were often State-Owned Enterprises (SOEs) (Rasiah & Gammeltoft, 2009). During the second wave in the 1980s, Asian MNEs, first from Singapore, Hong Kong, South Korea, Taiwan, and then from Malaysia, Thailand, China, India and the Philippines internationalized with more strategic and asset-seeking oriented objectives. They mostly expanded into fast growing foreign markets, but also

invested in developing countries to access cheap labor (Lall, 1983). The third wave has started since the 1990s with distinctive features compared to the earlier waves as many privately owned EMNEs emerged and Merger and Acquisition (M&A) activities greatly increased.

The rise of EMNEs has attracted the attention of scholars and sparked a scholarly debate in the International Business (IB) field about whether this represents a new phenomenon that requires new theories. And there are two extreme views of this question in the literature, one is that EMNEs are a new species of MNEs that can be understood only with new theory (Mathews, 2002); the other is that existing theory, is quite adequate to explain EMNEs (Narula, 2006), among which the most widely used approach has been the OLI paradigm.

Indeed, the OLI perspective has been extended to examine the internationalization of many EMNEs, including Chinese family enterprises (Erdener & Shapiro, 2005), Taiwanese and Singaporean firms (Sim & Pandian, 2003), Korean firms (Lee & Slater, 2007), etc. However, the OLI framework has also been challenged for its assumption that EMNEs should possess relevant ownership advantages to operate in a foreign country, while on the surface, EMNEs seem to be lack of the technology, brand, or management advantages that are traditionally owned by MNEs from developed countries (DMNEs).

So far, there is no wide agreement on this debate and whether it will ever achieve consensus is also unclear (Amighini, 2015). However, as Ramamurti (2012) concluded in his paper, it is clear that the existing models of the internationalization process would need refinement and extension to incorporate the case of EMNEs. Ramamurti also argued that one way to discover areas where existing theory is inadequate is to look for situations in which the behavior of EMNEs appears to be



“strange” based on our extant knowledge about DMNEs, and he has identified two such puzzles. The first puzzle is why emerging economies produce MNEs at all, which is related to the widely discussed question of what kind of competitive advantages enabled the internationalization of EMNEs. The second puzzle is whether EMNEs were expanding in “wrong” ways, since their behavior seems to have violated some of the core tenets about how firms should internationalize that were proposed by IB literature. The following two sections would talk about these two issues.

### 2.2.2. The competitive advantages of EMNEs

Scholars generally agree that the competitive advantages possessed by EMNEs are different from the ones that have been seen in DMNEs (Amighini, 2015). A variety of EMNE’s country-specific advantages (CSAs) and firm-specific advantages (FSAs) have been identified in the literature.

In general, four types of CSAs have been typically attributed to EMNEs. The first is the ownership of low cost production factors (Lall, 1983) such as low labor costs as well as easier and cheaper access to capital. For example, many EMNEs are found to leverage their low labor cost advantages to conduct production activities at home and establish marketing subsidiaries abroad (Cuervo-Cazurra, 2007). The second type of CSAs refers to the characteristics of the home country market and the relative market power of home market domestic firms. According to Andreff (2003), the monopolistic or oligopolistic position of firms at home markets acts as a springboard to their international investment especially towards countries at similar stages of development. The third type of CSAs enjoyed by EMNEs is the formal and informal connections with domestic institutions. The role played by government is

emphasized mostly in the studies related to Chinese MNEs as many of them are often supported by governments with preferential loans, selection of international partners for joint ventures and favorable tax regimes (Athreye & Kapur, 2009; Buckley et al., 2007; Child & Rodrigues, 2005). The fourth type of CSAs owned by EMNEs is the diasporas of persons (Contractor, 2013). In particular, several large emerging nations such as India, China and Brazil enjoy the advantage of having large diasporas. Such diasporas could act as markets for EMNEs. Although the ethnic marketing is unlikely to be of significant size, it does provide an initial entree and insights into an advanced nation market and an opportunity to test foreign markets at relatively low risk through initial exporting targeted at a limited audience for some EMNEs (Wang et al., 2013). This type of CSAs is particularly in need of more researches, since the related studies that specify the advantages diasporas contribute to multinationals and the quantification of the benefits are still very scarce (Contractor, 2013).

As for FSAs enjoyed by EMNEs, the widely discussed FSAs of EMNEs generally include their deep understanding of customer needs in emerging markets, the ability to function in difficult business environments, the capacity to develop products and offer services at ultra-low costs, the ability to develop “good enough” products with the appropriate feature-price mix for local customers, etc. (Cuervo-Cazurra & Genc, 2008; Govindarajan & Ramamurti, 2011; Guillen & Garcia-Canal, 2009;). Moreover, the condition of being a latecomer in global markets is also regarded as an advantage for many EMNEs in that they would take a global perspective from the start and base their international operations on the best practice organization models (Mathews, 2006).

However, despite the identification of diverse FSAs for EMNEs, there also have been some scholars arguing that EMNEs actually have no real competitive

advantages other than country-specific advantages (Rugman, 2009), and therefore the international expansion of EMNEs is simply an aberration that must eventually correct itself (Ramamurti, 2012).

### 2.2.3. The distinctive internationalization processes and strategies of EMNEs

As introduced before, the widely accepted model of internationalization processes, the Uppsala Model, believes that firms internationalize in an incremental pattern with gradually increasing commitment to host countries if things go well, and they are also expected to expand first to countries similar to the home market and then to distant markets.

However, researchers have found that a lot of EMNEs internationalize at a much faster pace than the Uppsala Model would suggest (Mathews, 2002; Guillen and Garcia-Canal, 2009). Moreover, many of them have expanded into physically or economically distant countries before entering more proximate and similar countries (Ramamurti, 2004). Some EMNEs are also observed to have the propensity to invest in developed countries than in other emerging countries. Also, when entering new markets, EMNEs appear to use high-commitment choices such as M&A rather than starting with low-risk and low-commitment options, such as sales subsidiaries (Madhok & Keyhani, 2012).

There have been many different explanations towards this puzzle. Some scholars seem to attribute the EMNEs' different pattern of internationalization to their emerging market origin. For example, Madhok and Keyhani (2012) explain the investment to developed countries from EMNEs and their propensity for M&A as resulting from the disadvantages of originating in emerging markets and the need to catch-up quickly with DMNEs.

Other scholars have provided a few alternative explanations of this issue. For example, it has been argued that the rapid internationalization by EMNEs may be a reflection of changes in the global business environment rather than any innate organizational trait of EMNEs (Williamson & Zeng, 2009). In terms of the EMNEs' propensity to invest in advanced countries, Ramamurti and Singh (2009) argued that this may be a reasonable strategy in the industries that are mature or declining in the developed world (e.g. cement, steel, beverages, PCs, etc.), but is booming in emerging economies, and under such conditions, EMNE's preference for M&A is also explainable as greenfield investments would only add to the capacity glut in those countries.

## **2.3. Researches on mobile payments**

### **2.3.1. The overview of mobile payment research**

Mobile payment research emerged soon after the first payment transaction was conducted with a mobile device in 1997 (Dahlberg et al., 2015). In the past two decades, mobile payments have been turned out to be a highly complex topic to study because it is a relatively recent phenomenon and evolves rapidly with different types of services, various technologies (NFC, QR Codes, SMS), and diverse stakeholders (financial institutions, mobile network operators, regulators) (Dennehy & Sammon, 2015).

Many different definitions have been proposed by researchers (e.g. Dahlberg et al., 2008; Contini et al., 2001; de Bel & Gâza, 2011), among which one of the most received definition was given by Dahlberg et al. (2008), saying Mobile payments are “payments for goods, services, and bills with a mobile device by taking advantage of wireless and other communication technologies”. Currently, four different types

of mobile payment operational models have been identified by researchers: bank-centric, operator-centric, collaborative, and independent service provider. (Chaix & Torre, 2011; Miao & Jayakar, 2016).

In the bank-centric model, banks are the central nodes of the model. Banks offer the mobile payment services independently, while mobile phones are just one of the platforms of payment, and therefore banks are responsible for managing transactions and retaining the profit.

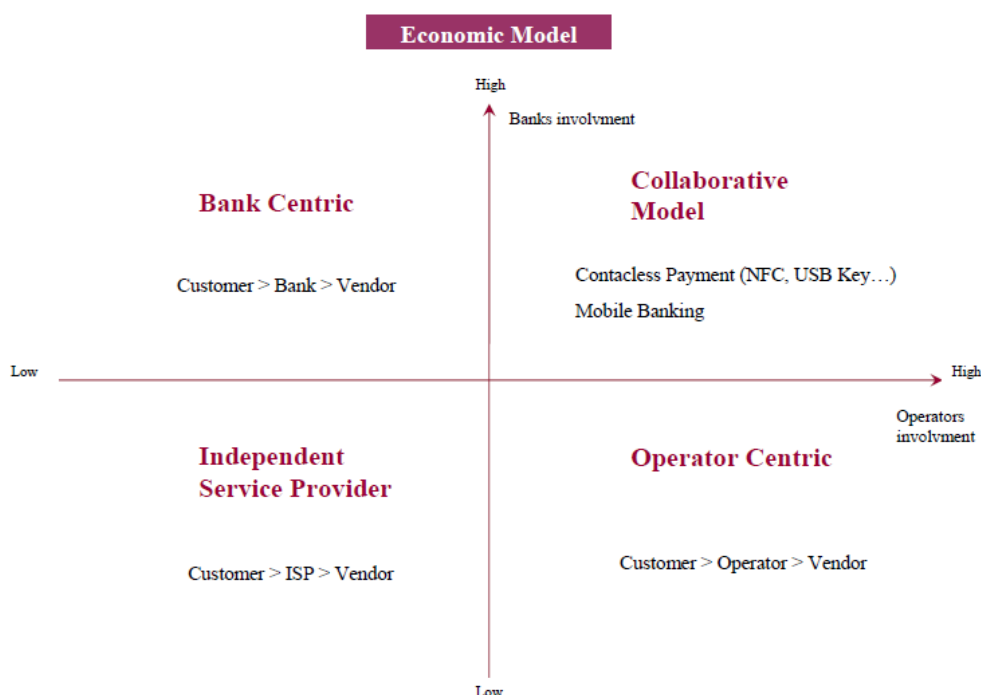
The operator-centric model is also known as telecom-centric model. In this model, the telecommunication operator offers the technology, operates the transactions and compensates the system. Payments for consumer purchases are deducted directly from the mobile account that connected to the user's telephone number.

In the collaboration model, a collaboration is established between mobile operators, banks and sometimes a third party which creates a link between the two main partners. All partners derive their profit from fees charged to merchants and final users. This model allows each partner to play its natural role by concentrating on his own capacities.

In the independent service provider model, also known as third-party payment platform-led model, a third party, distinct from a financial institution or a mobile operator, contracts with various banks to handle the transaction and payment issues between a purchaser and a vendor. In other words, this third-party service provider plays the role of intermediary between banks, merchants and customers using the mobile operator as the platform. In this model, the independent service provider concentrates all the organizational prerogatives held by banks or mobile operators in the previously introduced models. The two focal mobile payment service providers

of this paper, Alipay and Wechat Pay, both belong to this type. Other typical examples also include PayPal, Google Pay, etc.

Figure 2 posits the four models according to the level of involvement of the two main partners, the operator and the bank.



**Figure 2:** The four models and the level of involvement of operators and banks<sup>5</sup>

In terms of major research topics about mobile payments, Dahlberg et al. has conducted an early literature review in 2008 covering articles published between 1999 and 2006, and concluded that the majority of research had mainly focused on two issues: technology and consumer adoption. Almost a decade later, Dahlberg et al. (2015) conducted an updated literature review highlighting the differences between pre- and post-2007 research publications. However, they discovered that researchers had continued to focus on the same topics (technology and consumer

<sup>5</sup> Source: Chaix & Torre, 2011

adoption) with a limited accumulation of new knowledge and similar findings. In other words, the mobile payment researchers have continued to unnecessarily study a few topics of research, and do little work in the other categories, while numerous mobile payment issues are actually in need of deeper explorations.

### 2.3.2. The internationalization of mobile payment companies

So far, there have been very few studies about the internationalization issues of mobile payment companies. This may be due to the fact that mobile payment is still an emerging phenomenon in the world, and most service providers are just beginning to internationalize their services in recent years. For example, Apple Pay was launched in 2014 and was only available in the U.S. at that time, and its global expansion started from UK in 2015. Similarly, Google Pay (originally launched as Android Pay) was released in 2015 and has been expanding into other markets since 2016. In Europe, most mobile payment services are available locally in one or a few countries.

According to Dahlberg et al. (2015), crossing borders of mobile payments has been proved to be difficult in developed countries because local banks, merchants, mobile operators and regulators feel that their vested interests are threatened. Besides, each market is so different with diverse telecoms, banks, regulations, commerce habits, payment instruments used and so on, which increases the difficulties for mobile payment companies to conduct international business.

On the other hand, the rapid development and aggressive global expansion of mobile payment companies in emerging countries, especially those from China, have attracted the attention of some Asian scholars, while western scholars didn't seem to pay much attention on this phenomenon, since mobile payment services from

developing markets were considered by them to be unlikely to penetrate developed economies with their advanced financial markets and sophisticated telecom, merchant and consumer infrastructures (Dahlberg et al., 2015).

Chinese scholars generally carried out a few descriptive researches about the current situation of Chinese mobile payment companies' internationalization, and analyzed the international market environments faced by these companies. For example, Liu et al. (2018) analyzed the motivations and potential challenges of the internationalization of Chinese mobile payment companies. Ou-Yang & Meng (2018) described the current situation of Chinese mobile payment companies' internationalization, and analyzed the competitive advantage of these firms as well as the international market environment for their development. Cao (2018) argued that cross-border payments would become a "new blue ocean" for mobile payment companies. The author discussed about the background of the development of cross-border mobile payments, and suggested the problems and challenges that may be encountered by Chinese enterprises.

In addition to Chinese scholars, Korean researchers have also shown great interest in this topic, and they have paid special attention to the motives for internationalization of Chinese mobile payment companies as well as their entry mode choices. Kim & Lee (2018) analyzed push and pull factors for Chinese mobile payment companies to expand into the cross-border payment markets. The intensified domestic competition, increased overseas travelers and the supporting policy of the Chinese government are identified as the push factors. And the huge number of Chinese tourists and consumption expenditure, the local governments' policy, and the potential development of e-commerce are identified as pull factors. Kim (2018) conducted a comparative study on the factors that influence the different



entry mode choices of Chinese mobile payment companies when entering Hong Kong and Macao. He specifically mentioned that the launch of a local version of mobile wallet not only means an entry into the local payment market, but also means the entry into the local consumption and financial markets.

In general, the extant researches are quite limited to explain the internationalization of mobile payment companies. Studies related to Chinese enterprises have provided some basic insights for the literature, while these firms' internationalization processes and strategies have not been systematically analyzed. As typical representatives of mobile payment companies from developing countries, the rapid global expansion of Chinese mobile payment companies actually provides a great opportunity for the academic community to explore the mobile payment issues from a new perspective, and that is what this paper aims to do.

### **3. Methodology**

Given that the main purpose of this paper is to help build the literature on mobile payment companies' internationalization and the emergence of EMNEs, a case study approach is considered to be the suitable method for this research, because it has been perceived as one of the best (if not the best) of the bridges from rich qualitative evidence to mainstream deductive research (Eisenhardt & Graebner, 2007). In other words, the case study approach is an efficient qualitative method for depicting and theorizing about real world phenomena (Yin, 2011). By conducting in-depth analysis of the selected cases, a series of theoretical propositions would be generated for further large sample testing

This study selects Alipay and Wechat Pay as the case companies considering that China is currently the largest adopter of mobile payments, and these two companies are dominating the Chinese market, and have grown to be the two largest mobile payment providers in the world. They originate from different platforms (e-commerce vs. Instant messaging), but both operate the payment business under the third-party payment platform-led operational model. In recent years, both of them have been focusing on global expansion with somewhat different internationalization strategies. Therefore, these two companies are considered to be able to represent the Chinese mobile payment companies, and a case study on their internationalization processes and strategies would provide important implications for other mobile payment companies.

In terms of data collection, secondary data are collected for this study. The major sources of data include annual reports and official press centers of the companies, articles in newspaper and business journals, consulting reports, etc.

## 4. Introduction of China's Mobile Payment Industry

Since 2013, with the boom of the third-party payment platforms such as Alipay and Wechat Pay, China has witnessed an explosive growth in mobile payments. The transaction volume of the mobile payments in China increased from \$1.4 trillion in 2013 to more than \$29 trillion in 2017, with an annual growth rate of over 181%.<sup>6</sup>

Moreover, China's mobile payments penetration rate also ranks highest in the world. In 2016, 77% of Chinese used mobile payment services<sup>7</sup>, and according to a latest survey conducted by PwC, this ratio has increased to 86% in 2019. This chapter would introduce about the development, market competition and related regulations of China's mobile payment industry.

### 4.1. Development

China's mobile payments first appeared in 1999 when China Mobile partnered with certain domestic banks to trial the mobile payment services in some provinces such as Guangdong. Since 2006, a variety of mobile payment initiatives were launched by mobile operators and banks, among which the earliest and most powerful players were China Union Pay and China Mobile. In 2009, China Union Pay adopted the international NFC 13.56MHz standard, while China Mobile developed a 2.4GHz RF-SIM standard. The two giants kept fighting for their own standard for about three years, and the lack of a national standard obviously hindered the development of China's mobile payment industry. Finally, the two companies reached an agreement to jointly promote mobile payments in China, and China Mobile decided to drop its RF-SIM technology.

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<sup>6</sup> Evergrand Research Institute, “中国移动支付报告：领跑全球 前景广阔”，2018.12.11

<sup>7</sup> Data source: Ipsos

In the meanwhile, another stream of mobile payment service providers – the third party providers – began to emerge in the market, which was represented by Alipay. In 2011, Alipay introduced the QR code payment method which enabled offline in-store payments to be completed by scanning a customer's QR code in Alipay Wallet. Compared with the NFC payments, QR code payments are much more cost-effective and flexible since it is not constrained to certain types of mobile phones. In 2013, Alipay started to promote the QR code payment solutions by cooperating with a cab-hailing app. Later Wechat Pay joined the competition, which led to a cab payment subsidy war between the two companies. Since then on, Alipay and Wechat Pay have continuously invested into the marketing campaigns to promote the QR code payment methods and to enhance consumer stickiness to their own mobile wallets. Currently, the QR code payments are dominating China's mobile payment industry.

## **4.2. Competition**

China's mobile payment industry is currently dominated by two companies, the Alibaba-backed Alipay and Tencent-backed Wechat Pay. Specifically, Alipay occupies about 54% of China's mobile payment market, and Wechat Pay handles around 38%. They together account for the majority of China's mobile payment market, leaving 8% of the market to the rest of the competitors.

Despite the dominance of Alipay and Wechat Pay, many other competitors including some international giants are still trying to get a piece of the market. For example, Apple Pay and Samsung Pay both entered China by partnering with China Union Pay in 2016. Paypal partnered with Chinese search giant Baidu in 2017 to bring Chinese online shoppers to Paypal's international e-commerce sites. However,

so far it seems that these efforts have not been able to break the dominant positions of two incumbents. Figure 3 shows the market share of the payment companies in China's mobile payment industry in Q2 2018.

In terms of the competition between Alipay and Wechat Pay, Alipay had dominated China's third-party mobile payment industry before 2014 with a market share of more than 80%. However, Wechat Pay started to chip away at Alipay's lead since the success of its Red Packet function launched in 2014. The two companies kept competing in various O2O fields by investing heavily in all kinds of promotion campaigns. In general, Alipay is perceived as more secure and financial-related, while Wechat Pay is much easier to access and is more frequently used for small amount payments.

Moreover, the competition between Alipay and Wechat Pay is actually an important part of the competition between their parent companies, Alibaba and Tencent. Alibaba Group was founded in 1999 and has grown into a multinational conglomerate holding company specializing in e-commerce, and it also operates various other business including retail, cloud computing, digital media and entertainment, etc. Tencent was founded in 1998 and is now an internet-based technology and cultural enterprise specializing in social communication platforms and digital content. As China's two largest internet companies, Alibaba and Tencent are both aggressive investors inside and outside China, and they have been competing in various fields such as food delivery, cab-hailing, bike-sharing, digital media and Artificial Intelligence. The mobile payment industry now represents another core field that Alibaba and Tencent are competing in.

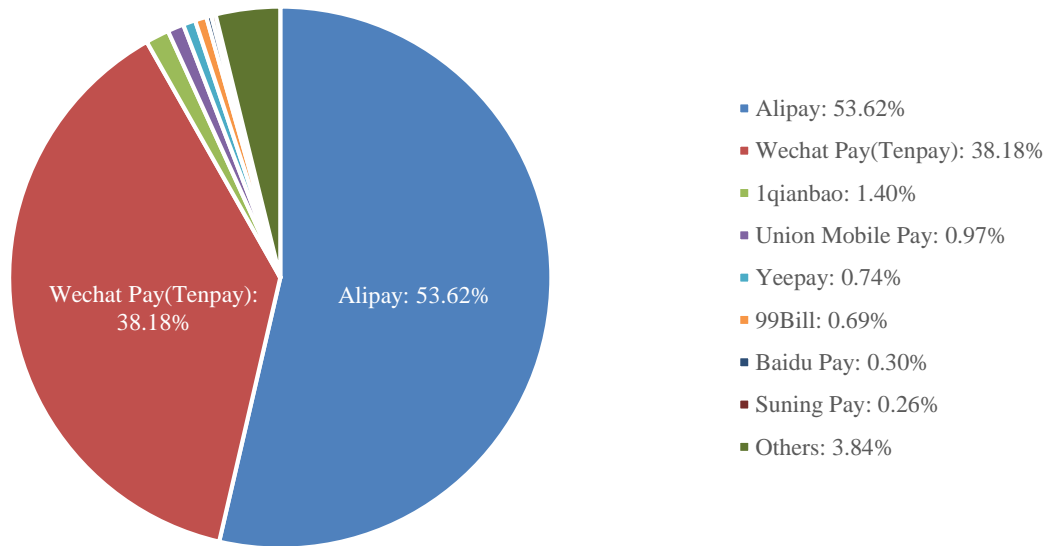


Figure 3: China Mobile Payment Market Share in Q2 2018

Data Source: Analysys

### 4.3. Regulations

In June 2010, with the development of China's mobile payment industry and the emergence of many third-party payment providers, the central bank of China issued the Administrative Measures for the Payment Services of Non-financial Institutions, which was the first regulation for online payments, requiring non-financial third-party payment providers to apply for a "Payment Business License" before September 2011. Then in May 2011, the first batch of the licenses were granted to 27 companies including Alipay and Tenpay.

In 2013, the QR code payment method started to get widely accepted thanks to the promotion of Alipay and Tenpay. However, in March 2014, China's central bank demanded that QR code and bar code payments made with mobile devices be halted due to the security concerns. About four months later, Alipay and Wechat Pay

quietly restarted the QR code-based payment services with more secure features. This time the regulators just kept silence, which seemed to be a signal of tacit consent, and the official regulations for QR code payments were not issued until the end of 2017.

From 2011 to 2015, the central bank of China issued a total of 271 third-party payment licenses. However, in August 2016, the central bank announced that it would stop issuing licenses to new non-bank payment providers in order to better regulate the payment industry.

In 2017, the NetsUnion Clearing Corporation was established, of which the central bank of China owns a largest share. All Chinese third-party payment platforms were required to route their transactions via this new platform. In 2018, the central bank required payment companies to put at least 50% of their reserves of client funds under central management, and this ratio was increased to 100% in January 2019. A latest regulation also required the non-bank payment companies to report large and suspicious transactions to the central bank of China. In general, it's obvious that China is gradually tightening the regulations over mobile payments, especially those operated under the independent service provider model.

## 5. Case Studies

### 5.1. Case 1: Alipay

#### 5.1.1 The evolution of Alipay

Founded by Alibaba Group in July 2003, Taobao is the biggest online shopping website in China. The core problem that Taobao encountered at the beginning of its development was the trust issue between sellers and buyers when completing online payments. In order to solve this problem, Taobao launched Alipay in October, 2003.

In 2004, Alipay was separated from Taobao and started to transform into a third-party payment platform. In 2008, Alipay announced its mobile e-commerce strategy and launched its mobile payment services. At the same time, Alipay extended its business to public service payments and many other online shopping platforms, which enables people to use Alipay to pay utility bills, air tickets, online games, etc. By 31 August 2008, Alipay's users have surpassed 100 million.<sup>8</sup>

In 2011, Alipay received the first "Payment Business License" issued by China's central bank which allows it to conduct payment business under the new regulatory framework. Moreover, Alipay started to expand its payment services from online to offline. It developed the "Barcode Pay" service, which allows customers to use Alipay mobile app to complete payments in store (Lu, 2018). In 2013, Alipay launched a money market fund called Yu'eobao. It allows users to deposit, withdraw or transfer money online free of charge, and even get a higher return than interests on bank deposits.

In 2014, Alipay was rebranded as Ant Financial Services. Then in 2015, Ant Financial launched Sesame Credit Service, which is a third-party credit rating system

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<sup>8</sup> "Alipay Hits 100 Million User Milestone", Alibaba Group, 2008.09.21.  
[https://www.alibabagroup.com/en/news/press\\_pdf/p080921.pdf](https://www.alibabagroup.com/en/news/press_pdf/p080921.pdf)



used to record and evaluate the credit status of users. Also, it started to provide virtual credit card service – Ant Credit Pay.

Since 2015, Alipay has focused on strengthening its O2O (Online to Offline) presence and accelerating its efforts to go global to serve more merchants and users. According to Alibaba's latest quarterly financial report (Q3 of 2019), Alipay's Chinese users have surpassed 700 million and its worldwide users have exceeded 1 billion.<sup>9</sup> Today, Ant Financial has become one of the largest fintech companies in the world, and Alipay is the modern gateway to Ant Financial's ecosystem of financial services, from wealth management and insurance to lending and credit scores.<sup>10</sup>

### 5.1.2 The internationalization of Alipay

#### (1) Internationalization by promoting cross-border e-commerce and eWTP

It is known that Alipay was born as a payment tool for Alibaba's e-commerce platform, and along with the rapid development of cross-border e-commerce, naturally Alipay started to step into the cross-border e-commerce market to reach more customers.

On the one hand, Alipay served to connect Chinese customers and overseas merchants by enabling Chinese shoppers to complete the online purchases by paying Chinese currency through Alipay. In fact, Alipay started this service as early as 2007. It mainly cooperated with popular overseas e-commerce websites among Chinese customers such as Hongkong's Sasa.com and Japan's Jshoppers.com. In 2013, Alipay received the official cross-border payment license granted by China's State

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<sup>9</sup> "Alipay's worldwide users exceed 1 bln", *Xinhua*, 2019.01.09. [http://www.xinhuanet.com/english/2019-01/09/c\\_137731690.htm](http://www.xinhuanet.com/english/2019-01/09/c_137731690.htm)

<sup>10</sup> "What The Largest Global Fintech Can Teach Us About What's Next In Financial Services", *CB INSIGHTS*, 2018.10.04. <https://www.cbinsights.com/research/ant-financial-alipay-fintech/>

Administration of Foreign Exchange. After that, Alipay further expanded its cross-border payments service by partnering with more foreign e-commerce platforms, and it continually put effort into improving the payment experience for Chinese shoppers.

In particular, year 2014 has witnessed the fast movement of Alipay's global expansion through connecting Chinese customers and foreign sellers. In April 2014, Alipay partnered with Japan's Rakuten to add Alipay as a payment option for Chinese customers on Rakuten Global Market. Then in June 2014, Alipay reached a deal with the U.S. payment startup Stripe, which allowed Chinese shoppers to purchase goods with Alipay from online merchants that use Stripe. More importantly, in October 2014, Alipay launched an ePass payment service for U.S. retailers. Alipay would help ePass users take care of the procedures such as currency exchange, shipping logistics and customs.

On the other hand, with the growth of Alibaba's global e-commerce business, Alipay also served to help foreign customers shop on Alibaba's e-commerce platforms such as Taobao, Tmall and AliExpress. For example, As AliExpress became the most visited e-commerce website in Russia, Alipay moved fast to collaborate with a variety of payment providers including Russia's Webmoney, Qiwi, Visa, Mastercard, etc.<sup>11</sup> Moreover, Alipay was particularly committed to enabling overseas unbanked people to make purchases on AliExpress. For example, a large percentage of AliExpress's customers are from Brazil, while Brazil has a large unbanked population. Therefore, Alipay collaborated with Brazil's Boleto in 2016, which is a popular payment method among local Brazilians. When shopping on AliExpress, unbanked Brazilians could print out the Boleto receipt and pay with cash in the nearest ATM, bank or convenient stores. The money will then go through

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<sup>11</sup> "How shoppers in Russia celebrate 11.11", *Alipay Global*, 2016.11.13

Alipay for the sellers in China to receive the money.<sup>12</sup>

In September 2016, Alibaba's founder Jack Ma proposed to establish the Electronic World Trade Platform, or eWTP at G20 Hangzhou summit. EWTP is an international corporation platform that aims to make it easier for small and medium-sized enterprises (SMEs) to take part in global economy via cross-border e-commerce by removing trade barriers that currently make it difficult for SMEs to buy and sell globally.<sup>13</sup> As an important supporter for this platform, Alipay has been aggressively expanding its global network in order to establish a more efficient cross-border payment system for SMEs.

In April 2017, Ant Financial announced that it merged with HelloPay Group, a payments platform operated by Singapore's Lazada Group which runs the largest online shopping and selling marketplace in Southeast Asia. HelloPay was rebranded as Alipay, and in its respective markets, it was rebranded as Alipay Singapore, Alipay Malaysia, Alipay Philippines, and Alipay Indonesia.<sup>14</sup>

However, it is obvious that expanding in Southeast Asia was not adequate to help establish the eWTP platform, and therefore Alipay also tried to expand its footprint outside of Asia. In January 2017, Ant Financial bid \$880 million for U.S. money transfer company MoneyGram, the second largest provider of money transfers in the world. It even raised its bid to \$1.2 billion because of the join of a rival bidder Euronet. However, this deal finally collapsed in 2018 after the Committee on Foreign Investment in the United States (CFIUS) rejected it over "national security concerns".

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<sup>12</sup> "Alipay made it possible for Brazilians to join the world's biggest shopping festival", *Alipay Global*, 2016.11.09

<sup>13</sup> David Harris, "What is eWTP, and why you should care", *cargofacts*, January 4, 2017

<sup>14</sup> Eva Xiao, "Jack Ma's Ant Financial merges with Lazada's HelloPay Group", *Tech in Asia*, 2017.04.19. <https://www.techinasia.com/ant-financial-merge-hellopay-group>

After seeing the failure with U.S. based MoneyGram deal, Alipay started to search for its new M&A target in Europe. In February 2019, Ant Financial completed the acquisition of WorldFirst, a U.K. based money transfer and foreign exchange company. In order to placate U.S. regulations, WorldFirst even shut its operations in the U.S. WorldFirst has partnered with a number of major marketplaces and e-commerce service providers such as Amazon, ebay and Rakuten, and it has international offices located in U.K., Netherlands, Hong Kong, Singapore, Australia, and Japan. The acquisition of WorldFirst enabled Alipay to reach much more customers and better serve SMEs globally.

## (2) Go global with Chinese tourists

According to China National Tourism Administration, China's yearly outbound tourists reached 100 million for the first time in 2014. Asia saw the lion's share of visitors with about 90 percent of outbound Chinese departures, followed by Europe, Africa and America. The hottest destinations for Chinese tourists included Hong Kong, Macao, Taiwan, South Korea, Thailand, Japan, the United States, Vietnam and Singapore.<sup>15</sup>

The increasing number of outbound Chinese tourists and huge overseas consumption expenditures naturally attracted the attention of Chinese mobile payment companies, and Alipay has been one of the first mobile payment providers to seek to serve these outbound Chinese tourists. Since 2014, Alipay started to follow the footsteps of Chinese tourists to expand its business in the world.

In January 2014, Alipay announced that Alipay Wallet would be available for mobile payment in Hongkong and Taiwan, and also in South Korea later. More

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<sup>15</sup> “中国内地公民出境旅游人数 2014 年首次突破 1 亿人次”，人民网，2014.12.03

specifically, 336 OK convenience stores, 90 Bonjour cosmetics stores and 10 Giordano apparel outlets in Hong Kong were the first places to accept Alipay. When a mainland Chinese tourist travels in Hongkong and shops in these stores, he or she could use Alipay Wallet's face-to-face payment function to generate a bar code that includes the user's Alipay account information. In order to complete the payment, the user only needs to get this bar code scanned by the cashier.

By working closely with local merchants, financial institutions and payment processors, Alipay kept extending its service into more popular destinations for Chinese tourists such as Singapore, Thailand, Japan, etc. Its in-store mobile payment solutions were welcomed by restaurants, shopping malls, duty free shops, drug stores and amusement parks that Chinese tourists frequently visited.

In September 2016, Alipay launched the "Future Airport" program that aimed to simplify the overseas payments with Alipay for Chinese tourists, as well as to provide additional services such as recommending local shopping and dining options to them in a targeted manner. The first ten international airports that joined in this program included Germany's Munich Airport, Japan's Narita International Airport, South Korea's Incheon International Airport, etc. In particular, by cooperating with Munich Airport, Alipay made its first step into the European offline consumption market.

In October 2016, Alipay announced that it has partnered with the U.S. payments processor First Data and hardware manufacturer Verifone. Under the partnership, Alipay would be available to Chinese tourists as a payment option at select U.S. retailers that offer First Data's Clover mPos terminal and Verifone's e355 mPos device.

In November 2016, Alipay entered into a memorandum of understanding with

the Commonwealth Bank of Australia. Under the agreement, Chinese tourists and students would be able to use Alipay to complete the payments in the stores that use the Alipay payment terminal.

In June 2017, Alipay announced its entry into South Africa by working with its partner ACI Worldwide and bus tour operator City Sightseeing. The first local merchant that accepted Alipay was the famous “hop on-hop off” tour bus.

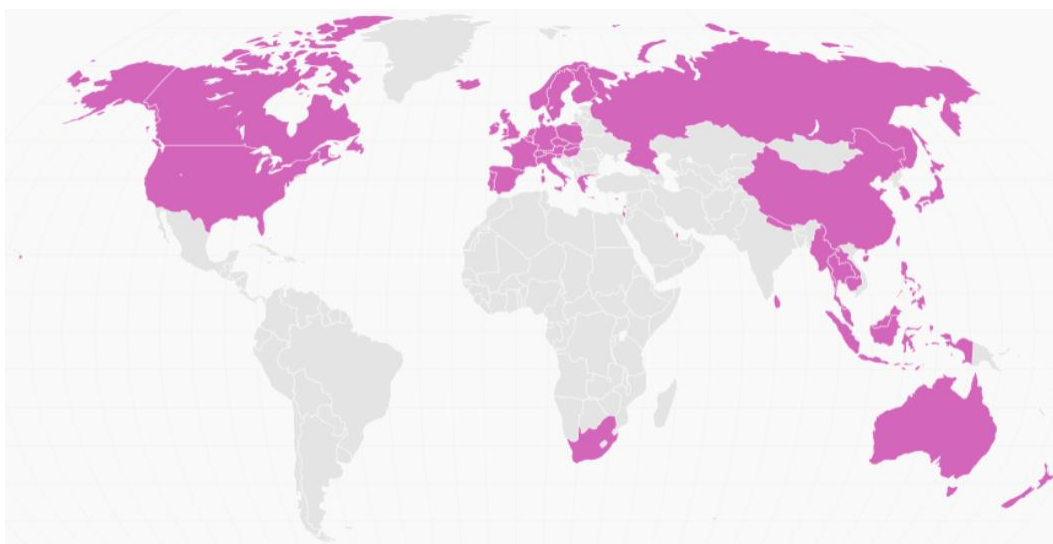
Moreover, Alipay also partnered with a lot of multinational companies and platforms to accelerate its worldwide expansion. For example, in 2015, Marriott International and Alipay reached an agreement that Marriott’s worldwide hotels and resorts would start to accept Alipay’s payment solutions to better serve Chinese travelers. Besides, Alipay expanded its partnership with Uber in 2016, which allowed the Chinese tourists to pay for rides using Alipay app in any of the 68 countries where Uber operated in.

By targeting at the outbound Chinese tourists and working with local partners, now Alipay’s mobile payment services have covered almost all aspects of Chinese tourists’ overseas consumption including in-store payments, tax refund, air-ticketing, local transportation and so on. By the end of February 2019, Alipay’s in-store payments solution has been accepted by 54 countries and regions (as shown in table 1 & Figure 3), and Alipay’s tax refund service was available in 35 countries/regions and 85 airports around the world.

**Table 1:** Countries/Regions that accept Alipay's in-store payment solutions (~2019.02)

Continent	Countries / Regions
Asia	Mainland China, Hong Kong, Macao, Taiwan, Japan, South Korea, Singapore, Thailand, Malaysia, Philippines, Cambodia, Laos, Israel, Nepal, United Arab Emirates, Myanmar, Qatar, Maldives, Indonesia, Sri Lanka
Europe	Britain, Germany, France, Italy, Netherlands, Sweden, Finland, Austria, Czech Republic, Belgium, Russia, Monaco, Spain, Greece, Switzerland, Denmark, Norway, Luxembourg, Iceland, Portugal, Malta, Ireland, Poland, Liechtenstein, Slovenia, Slovakia, Hungary, Cyprus
Oceania	Australia, New Zealand
North America	United States, Canada
Africa	South Africa, Mauritius

Data: Ant Financial

**Figure 3:** Fifty-four countries/regions that accept Alipay's in-store payment solutions (~2019.02)<sup>16</sup>

<sup>16</sup> Data: Ant Financial; Source: Quartz (qz.com)

### (3) “Replicate” Alipay in foreign markets

In addition to achieving internationalization through serving cross-border e-commerce and outbound Chinese tourists, Alipay’s another important internationalization strategy is to establish mobile payment systems in foreign countries to serve the local people, a strategy that Alipay calls it “replicating Alipay in foreign markets”. This strategy was first experimented in India, and then in Southeast Asia as well as South Korea. By the end of 2018, Alipay has incubated local payment solutions in nine countries/regions outside of Mainland China.

#### *Start with India*

In Asia, Alipay began its conquest from Indian market. Similar to China, India has a large population and its mobile phone internet users are rapidly increasing in recent years. However, India’s financial services and banking infrastructure are significantly underdeveloped. In 2014, more than 600 million Indians (47% of the population) still did not have a bank account in a financial institution.<sup>17</sup> People having debit cards comprise only 13 percent and those having credit cards a marginal 2 percent.<sup>18</sup> Meanwhile, Indian government has launched a Digital India program with a vision to transform India into a cashless society. These all provided Alipay with a great opportunity to expand into the Indian market.

In February 2015, Ant Financial invested in Paytm’s parent company One97 Communications, an Indian e-payment and commerce startup, for a 25 percent stake. Then in September, Alibaba announced a second strategic investment in Paytm, which takes Alibaba’s stake in Paytm up to 40 percent.<sup>19</sup>

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<sup>17</sup> “Financial inclusion in India and the challenges for the banking industry”, *CaixaBank Research*, JANUARY 2016

<sup>18</sup> “Financial Inclusion in India 2014 : An Overview”, *India Microfinance*

<sup>19</sup> Nikita Peer, “More money in Paytm’s wallet: Alibaba makes second investment in Indian epayment startup”, *Tech in Asia*, 2015.09.29. <https://www.techinasia.com/india-paytm-more-funding-alibaba>



At the beginning of the partnership, Alipay only provided Paytm with limited support such as advices towards its business model. However, it turned out that the immature technology of Paytm was not able to meet the rapid growth of its business volume. Paytm soon experienced two risk management failures and suffered heavy losses, which reminded Alipay of the need to help Paytm with its technological capabilities in a more systematic way. Therefore, Alipay started to send technical support teams to Paytm to help it develop new products and improve its risk control capacity.

With the help of Alipay, Paytm has enjoyed an extremely rapid growth over the past few years. Its registered user base grew from 20 million in 2015 to 220 million in 2017, making it become India's largest payment service provider (Wang, 2019). On the other hand, this successful partnership with Paytm also provided a valuable experience for Alipay to continue its global expansion.

### *Southeast Asia and South Korea*

After seeing success with Paytm in India, Alipay started to move aggressively into Southeast Asia.

In November 2016, Ant Financial invested in Thailand's payments and online finance provider Ascend Money. Based on the experience with Paytm, Ant Financial similarly assisted Ascend Money in growing its online and offline payment and financial ecosystem in Thailand by providing strategic and technical support.<sup>20</sup>

In 2017, Alipay further speeded up its expansion in Asia. In February, Ant Financial expanded into the Philippine market by acquiring "substantial minority stake" in Mynt, an affiliate of Globe Telecom. Almost at the same time, Ant Financial

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<sup>20</sup> Zen Soo, "Ant Financial forms strategic partnership with Thai fintech Ascend Money", *South China Morning Post*, 1 Nov. 2016. <https://www.scmp.com/business/article/2041909/ant-financial-forms-strategic-partnership-thai-fintech-ascend-money>

announced a \$200 million investment in Kakao Pay, the mobile payment provider from South Korean messenger maker Kakao, making Alipay become the second-largest shareholder of Kakao Pay.

In April 2017, Ant Financial announced a push into Indonesia by setting up a joint venture to launch a new mobile payment platform with PT Elang Mahkota Teknologi (Emtek), a local media and digital conglomerate.<sup>21</sup>

In May 2017, Alipay launched AlipayHK, a version of its flagship app dedicated to local-currency payments in Hong Kong. Ant Financial also set up a 50-50 joint venture with CK Hutchison in 2018 to promote AlipayHK in the local market.

In July 2017, Touch 'n Go (TNG), which runs one of the most widespread e-payment systems in Malaysia, entered into a joint venture with Ant Financial to introduce a new e-wallet payment system in Malaysia based on technology from Alipay.<sup>22</sup>

In March 2018, Ant Financial and Telenor Group reached a strategic partnership agreement where Ant Financial will invest \$184.5 million for a 45% stake in Telenor Microfinance Bank, a subsidiary of Telenor Group in Pakistan which operates Pakistan's first mobile financial services platform Easypaisa.<sup>23</sup>

In April 2018, Ant Financial purchased a 20 percent stake in bKash, Bangladesh's largest mobile financial service provider. Under the partnership, Alipay would also help bKash increase its technological capabilities.

Alipay's globalization process and strategy by "replicating" Alipay in the overseas markets are summarized in Table 2.

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<sup>21</sup> "Emtek Group and Ant Financial entered strategic partnership through a payment joint venture", *Ant Financial*, 2017.04.12. <https://www.antfin.com/newsDetail.html?id=5907f683119ef4c381f38fc4>

<sup>22</sup> "CIMB's Subsidiary Touch 'n Go and Ant Financial to Promote Innovative & Digital Financial Services in Malaysia", *Ant Financial*, 2017.07.24. <https://www.antfin.com/newsDetail.html?id=5981656dc89ca34efaa2af87>

<sup>23</sup> "Telenor Group and Ant Financial in strategic partnership to deliver inclusive financial services in Pakistan", *Telenor Group*, 2018.03.13. <https://www.telenor.com>

**Table 2:** Ant Financial (Alipay)'s globalization process and strategy in Asia

Time	Country/Region	Local Partner	Method
2015.02	India	Paytm	investment alliance
2016.11	Thailand	Ascend Money	investment alliance
2017.02	Philippines	Mynt	investment alliance
2017.02	South Korea	Kakao Pay	investment alliance
2017.04	Indonesia	Emtek	joint venture
2017.05	Hong Kong	CK Hutchison	joint venture
2017.07	Malaysia	Touch 'n Go	joint venture
2018.03	Pakistan	Telenor	investment alliance
2018.04	Bangladesh	bKash	investment alliance

## **5.2. Case 2: Wechat Pay**

### **5.2.1. The evolution of Wechat Pay**

Wechat Pay originated from Wechat, the most popular messaging app in China and Tenpay, an integrated payment platform, both of which belong to China's leading provider of internet value-added services – Tencent.

In 2005, Tencent launched its official online payment platform Tenpay. At that time, Tenpay mainly served to provide support for Tencent's e-commerce business. However, as Tencent's e-commerce platforms such as Paipai didn't perform well in the competition with Alibaba's Taobao, it was hard for Tenpay to catch up with Alipay in the third-party online payment market in China.

In August 2013, Tenpay and Wechat cooperated to launch the Wechat Pay, a payment solution completely integrated inside Wechat. Before the launch of Wechat Pay, the monthly active users of Wechat has already reached 272 million (Yang, 2018). However, the large user base of Wechat didn't enable an immediate success of Wechat Pay, mainly because of the lack of attractiveness for Wechat users to add bank cards to their Wechat Pay account.

In January 2014, Wechat Pay introduced a function to send digital "New Year Red Packet" to Wechat friends, which leveraged the Chinese tradition of giving red packets, or red envelopes, containing cash to friends and family during Chinese New Year. The digital red packet service turned out to be a huge success. From Chinese New Year's Eve to the eighth day, more than 8 million users participated in the red packet event, and more than 40 million red packets were received. Then during Chinese New Year 2015, Wechat cooperated with CCTV Spring Festival Gala, the most watched TV show in China to further promote the red packet function and Wechat Pay. On the night of the Eve, more than 20 million people participated in the

event and the total number of red packets sent and received exceeded 1 billion times. During the 2015 Chinese New Year, about 200 million bank cards were connected to the users' Wechat Pay accounts.

Wechat Pay also stepped into the O2O field in 2014 by cooperating with Didi, a cab-hailing app. Didi users would get a high subsidy by paying taxi fares via Wechat Pay. In response to Wechat Pay's movement, Alipay also started to invest heavily in cab payment subsidies for passengers using Kuaidi, the rival company of Didi. This finally led to the famous cab payment subsidy war in China, and it ended with the merger of Didi and Kuaidi in 2015. However, Wechat Pay kept competing with Alipay in other O2O fields such as food delivery, social commerce, etc.

As for the offline market, Wechat Pay has focused on promoting the Quick Pay and QR code payment products. Quick Pay is applicable to medium and large-sized merchants. In order to complete the payment, customers could generate a bar code or QR code on Wechat's Quick Pay page for the vendor to scan. As for the QR code payment function, it is generally applicable to small-sized merchants. It enabled the vendors to generate a transaction QR code, and Wechat users could complete the transaction by scanning the QR code with Wechat. Compared with the traditional payment method with credit cards and POS machines, the cost of Wechat Pay's payment solutions is much lower, especially for the small merchants. These payment functions together with Wechat Pay's strong social network enabled Wechat Pay to be adopted by thousands of offline merchants in a short time.

In 2014, China's third-party mobile payment industry was led by Alipay with absolute dominant market share of 82.3%, followed by Wechat Pay (Tenpay) with 10.6%.<sup>24</sup> However, in the fourth quarter of 2018, although Alipay retained its market

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<sup>24</sup> "China Third-party Mobile Payment GMV Quadruples", *iResearch*, March 13, 2015

dominance with a 53.8% market share, Wechat Pay (Tenpay)'s market share has increased to 38.9%.<sup>25</sup>

With more than 800 million users<sup>26</sup>, Wechat Pay has grown to be the most powerful competitor of Alipay in the China's third-party mobile payment industry, and it has started to take steps towards the overseas markets.

### 5.2.2. The internationalization of Wechat Pay

#### (1) Focus on the outbound Chinese tourists

Similar to Alipay, Wechat Pay also chose to penetrate into the overseas markets by following the footsteps of outbound Chinese tourists. Therefore, its internationalization also started from the popular destinations among Chinese travelers.

In June 2015, Wechat Pay rolled out its service in Hong Kong by cooperating with Sasa, a Hong Kong-based cosmetic retailing group. Tourists from mainland China would be able to use Wechat Pay in about 100 offline stores of Sasa Hong Kong. After that, Wechat Pay continued to team up with popular merchants among mainland-Chinese tourists such as Chow Tai Fook Jewellery, bonjourhk, Mannings, Hong Kong Ocean Park, etc. Department stores, supermarkets and convenient stores were Wechat Pay's top targets.

Wechat Pay also chose South Korea as its starting point for their future globalization. In 2014, South Korea was the tourism destination that attracted the largest number of Chinese tourists except Hong Kong and Macao. In June 2015, Wechat Pay announced that it has reached cooperation with Coffine Gurunaru, a famous coffeehouse chain and 7-Eleven Convenience Store in South Korea to launch

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<sup>25</sup> "China's mobile payment market fourth quarter growth dwindled", *technode*, March 28, 2019

<sup>26</sup> "微信小程序日活跃度逾 2 亿，微信支付用户超 8 亿", 搜狐网, 2018.08.31

its in-store payment service for Chinese tourists. Then in July 2015, Wechat Pay was also accepted by the Shilla Duty Free Shop.

In November 2015, Wechat Pay announced that it would fully open the cross-border payment function for overseas merchants. The function enabled Chinese tourists to pay in Chinese currency, and Wechat Pay would transfer the payment to the vendor's bank account after currency exchange through a partner settlement bank. At that time, 9 currencies were supported and overseas merchants could apply for this service as long as it met the requirements.

With such efforts, Wechat Pay soon got promoted in more countries and regions that were popular among Chinese tourists such as Japan, Southeast Asia, Australia, etc.

In May 2017, Wechat Pay announced a partnership with Silicon Valley-based mobile payment company Citcon to take its service to the U.S market. Chinese tourists would be able to make payments with Wechat Pay in the U.S. merchants via Citcon's smart mPOS, easy-to-integrate API and software products.

In July 2017, Tencent partnered with German payment provider Wirecard to introduce Wechat Pay in Europe. With more than 25000 global customers from diverse industries, Wirecard aimed to encourage the use of Wechat Pay among European retailers for outbound Chinese tourists.<sup>27</sup>

Moreover, Wechat Pay held the first Wechat Pay Overseas Open Conference in Tokyo in March 2017, and launched the new Wechat Pay Open Platform for overseas merchants. Overseas merchants and service providers could submit the application materials online to apply for Wechat Pay payment services. This new open platform lowered the requirement for Wechat Pay's payment service integrations, and

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<sup>27</sup> "WeChat Pay comes to Europe as Tencent partners with German payment provider Wirecard", *GBTIMES*, Jul 11, 2017

increased the efficiency by automating the screening processes.

The strategy of focusing on the outbound Chinese tourists enabled Wechat Pay to expand fast in the world. By March 2019, Wechat Pay has extended its cross-border payment service to more than 49 countries and regions, supporting payments in 16 currencies. Grace Lin, Director of WeChat Pay's International Operations, confirmed in an interview in 2018 that the outbound Chinese tourists would still be the focus of Wechat Pay's international business for the next three years, and Wechat would not seek to offer more local wallets to overseas customers because developing payment tools for foreign users, many without even a Wechat account, would be too challenging.<sup>28</sup>

## (2) Bring Wechat Pay's ecosystem to the world

In China, Wechat Pay has integrated the payment capability with a wide range of other Wechat functions including Official Accounts, Mini Programs and social media advertising to better connect the customers and merchants, as well as to offer smart living solutions to Chinese people. And Wechat Pay is trying to bring this ecosystem to its global markets.

Traditionally, the transactions between outbound Chinese tourists and overseas offline merchants were often regarded as one-off businesses, and payment was considered the end of a purchase. However, with more and more Chinese tourists travelling abroad for multiple times and the increasing need of them to purchase overseas products when they are in China, the ability to build a long-term communication with these customers is becoming more and more important. And that is what Wechat Pay are making special efforts on. For example, upon the

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<sup>28</sup> Celia Chen & Iris Deng, "WeChat Pay to keep overseas focus on outbound tourism instead of offering more local wallets", *South China Morning Post*, 11 Jul, 2018



completion of a purchase through Wechat Pay, customers would be shown the option of following the merchant's official WeChat account, which is a useful function for the sellers to conduct marketing activities in the future. Large retailers that have strong global logistics and distribution capabilities can even conduct cross-border e-commerce business on Wechat.

Moreover, by the end of 2017, there has been more than 30,000 registered service providers in the Wechat Pay's ecosystem. The so-called service providers are the third-party companies that provide technical supports to the merchants that want to digitalize their businesses through Wechat. These service providers would help develop Wechat's Mini Programs and provide smart solutions for the merchants. Using Wechat to order food in the offline restaurants is a typical function that was proposed by the service provider and then developed with the help of Wechat Pay product team.<sup>29</sup> In terms of global expansion, Wechat Pay is also working to help the service providers get to offer these smart living solutions to overseas merchants, and therefore better serve outbound Chinese tourists.

This strategy has been successfully applied in several overseas regions and different industries. For example, at Heytea Hong Kong, customers can order through a Wechat's Mini Program and collect their orders in store when it is ready, which reduces the waiting time. In Japan, Fuji-Q Highland guests can use a Wechat's Mini Program to purchase the tickets and check queuing time to better plan their visit for different rides. These all ensured a better experience throughout the consumer journey for Chinese tourists.

In March 2019, Wechat Pay held the "Wechat Pay Overseas Partner Conference 2019" in Hong Kong. The conference emphasized Wechat Pay's global strategy of

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<sup>29</sup> 张雨忻&吴梦启, “微信支付的海外‘B’计划”, 36 氪, 2019.03.30

encouraging service providers to serve overseas merchants to optimize service experience for Chinese customers and expand the coverage of Wechat Pay. It also unveiled five key areas of its cross-border business: (1) expand Wechat Pay's cross-border payment into more markets and support more currencies; (2) promote smart cashier to improve the customers' shopping experience; (3) promote self-service ordering solutions to get over the language barriers; (4) promote the application of AI-based solutions in the fashion and beauty industries; (5) explore more solutions in new areas such as overseas consular services, healthcare, education, etc.<sup>30</sup>

### (3) Local wallets for Hong Kong and Malaysia

As mentioned before, developing local payment wallets for overseas customers is not the focus of Wechat Pay's internationalization strategy. Therefore, by 2019, Wechat Pay has only launched two local digital wallets in Hong Kong and Malaysia, both of which own a large number of Wechat users.

As a special administration region of China, Hong Kong has its own monetary and financial policies, as well as its own currency (the Hong Kong Dollar). The Hong Kong Dollar is not accepted in stores in mainland China and vice versa. During the 2016 Chinese New Year, Wechat Pay partly opened its wallet service to selected Hong Kong users for the first time. These users could connect their Hong Kong credit cards (MasterCard or Visa) to Wechat accounts to purchase items and try the "red packet" function. However, such payment services were operated without supervision at that time and therefore were lack of functionality.

On August 25, 2016, Wechat Pay received a stored value facility (SVF) license issued by the Hong Kong Monetary Authority. This license allowed Wechat Pay to

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<sup>30</sup> "WeChat Pay Supports Merchants Expanding Businesses by Bringing its Ecosystem to the World", *Cision*, Mar. 22, 2019

operate stored value facilities and retail payment systems in Hong Kong under a regulatory regime, and therefore made it easier for Wechat Pay to fully serve Hong Kong people. After that, Wechat Pay HK introduced more expanded payment features for local customers, such as Quick Pay, QR code payment, remittance services, etc. Wechat Pay HK users could make payments in a large number of stores as well as paying taxi fares. 17 major banks in Hong Kong teamed up with Wechat Pay to help promote mobile payments.

More recently, in September 2018, Wechat Pay partnered with China Union Pay and Union Pay International to launch the cross-border mobile payment services of Wechat Pay HK. This enabled Wechat Pay HK users to pay for purchases in mainland China, making it the first digital wallet in Hong Kong that allowed local users to settle their purchases on the mainland.<sup>31</sup> The first batch of mainland vendors that accept Wechat Pay HK included the cab-hailing app Didi, social commerce platform Meituan-Dianping, and railway ticketing platform 12306.cn.

Wechat Pay's another local wallet developed for overseas customers was launched in Malaysia. Grace Yin explained in a technology conference that Wechat Pay made this choice because "Malaysia has a large Chinese community".<sup>32</sup> Indeed, Malaysia Chinese is the second largest ethnic group within Malaysia, and Tencent's senior vice president SY Lau said in an interview in 2017 that there were more than 20 million Wechat users in Malaysia.<sup>33</sup>

In July 2017, Tencent announced that it has applied for a e-payment license for Wechat Pay to operate in Malaysia. Then in November, SY Lau disclosed that the company had made a "breakthrough" in gaining the license.<sup>33</sup> Finally, in August 2018,

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<sup>31</sup> Zhou Mo, "WeChat Pay HK expands payment services to mainland", *China Daily*, 2018.09.27

<sup>32</sup> John Lim, "WeChat Pay Is Coming To Malaysia Next Year. Here's What You Need To Know", *Says*, 22 Nov., 2017

<sup>33</sup> Sijia Jiang, "Tencent turns to WeChat, games and deals for global strategy", *Reuters*, 20 Nov., 2017

Wechat Pay officially launched its local mobile wallet product in Malaysia, called Wechat Pay MY. Malaysian people could use Wechat Pay MY for online payments such as movie ticket and flight ticket purchases, as well as offline payments at outlets such as Starbucks and KK mart. All the transactions would be settled in Malaysian Ringgit (MYR). More recently, in March 2019, Wechat Pay MY held a kick-off event business conference titled “Advancing the Future of Malaysia's Digital Landscape” in Kuala Lumpur, announcing its plans to further expand the merchant base and provide more advanced services in Malaysia.

## 6. Discussion and Proposition

### 6.1. Alipay case analysis

*Speed* Although Alipay's internationalization can be traced back to 2007 – four years after its birth – when it started to help promote the cross-border e-commerce business, a long period after 2007 didn't witness a rapid development of its global expansion. However, it seems that Alipay suddenly started to speed up the internationalization process in 2014 when it partnered with many foreign e-commerce giants and entered certain foreign markets such as Hongkong and Taiwan to serve outbound Chinese tourists. In the next year, Alipay (Ant Financial) also made its first investment in India's Paytm. Ever since then, Alipay has kept moving fast in more and more global markets.

Interestingly, in an interview conducted in May 2013, Jack Ma mentioned that it was uncertain whether Alipay was ready to face globalization and to expand into foreign markets.<sup>34</sup> The sudden acceleration of Alipay's internationalization in 2014 therefore seemed to be somewhat “strange”. However, it should be pointed out that there was a major change in the Chinese mobile payment industry in 2014 – the extremely rapid growth of Wechat Pay achieved by its “Red Packet” function. Although Alipay has invested heavily in the competition with Wechat Pay in order to maintain its dominant position in Chinese mobile payment market, this didn't stop Wechat Pay from chipping away at Alipay's lead. Therefore, it could be argued that the increasingly fierce competition in the domestic market is an important factor that drove Alipay to speed up its internationalization to serve more customers outside of China.

Moreover, the speed of Alipay's internationalization also differs when targeting

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<sup>34</sup> “马云：任何商业帝国都可能倒台”，新蓝网综合，2013.07.17

different customers. Alipay started to serve outbound Chinese tourists in 2014, and so far, its in-store payments solution provided for Chinese tourists has been accepted by 54 countries and regions by the end of February 2019. However, when targeting local people in the foreign markets, Alipay's global expansion was much slower. It made an initial investment in a foreign mobile payment wallet (Paytm) in 2015, but to date, it has only entered nine countries for the purpose of serving the local people.

***Geography*** When Alipay targeted the outbound Chinese tourists, it mainly entered the countries and regions that were popular among Chinese tourists. In general, the most visited locations by Chinese tourists are Asian countries, followed by European and American countries. The large number of Chinese tourists clearly ease the entry into these markets since the offer of mobile payment options to Chinese tourists could help the local merchants boost their sales. Therefore, Alipay firstly launched its service in Hong Kong, Taiwan and South Korea in 2014, and then expanded into other Asian countries. In 2016, Alipay made its first steps into the relatively distant European and American markets, and it entered the African markets one year later. This geographical path shows that close and “easier” markets were entered first, and distant markets were entered later, which is consistent with the Uppsala Model.

Then when Alipay turned to serve the local people rather than Chinese tourists in foreign countries, its geographical choices seem to be somewhat different. So far Alipay has invested in developing the local mobile wallets in nine Asian countries. Similar to China, most of these countries such as India, Philippines, and Indonesia feature a large underbanked population with a quick adoption of smartphones, and are seeking to leapfrog the use of credit cards to achieve a cashless society just like China.

**Entry mode** When Alipay entered the foreign markets with a purpose to serve the Chinese tourists, it has taken the form of a low-control entry mode. Specifically, it entered the most visited countries by Chinese tourists relying on the cooperative agreements made with local partners including local merchants, financial institutions and payment processors. Alipay adopted this low-control and no-ownership entry mode for various reasons. Since the target customers of Alipay's internationalization at that time were outbound Chinese tourists rather than local customers, the business volume was relatively small compared to the size of the company. Also, with limited international experience and access to the local business networks, a low-control entry mode that requires low resource commitment but enables immediate access to a large number of local merchants was naturally preferred by Alipay.

However, when Alipay aimed to serve local people in the foreign markets, it chose the moderate-control entry modes (partial-ownership mode). It has entered nine Asian countries with the purpose to develop the local mobile payment systems, and all of these entries were made by acquiring minority stakes of a local payment company or establishing joint ventures with a local partner. "Local partners often have a better understanding of local regulations, economic conditions and the development background of financial-related industries. Also, there may be more frequent regulatory changes in developing countries that require us to make adjustments in time to ensure legitimacy," said Jia Hang, senior director of the international business unit at Ant Financial.<sup>35</sup> This indicates that Alipay adopted these kinds of entry modes in order to gain access to the resources it initially lacked including the local knowledge and legitimacy. It can also share the risks with the local firm and therefore decrease the exposure to country risks. Moreover, to tap into

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<sup>35</sup> "蚂蚁金服出海结盟，支付宝在东南亚落地阻力重重", 虎嗅, 2018.08.18.

local payment markets, a payment license is at least required by local governments, and many countries also have strict foreign shareholding restrictions. For example, under the Indonesia's E-Money Regulation, an issuer can only have foreign share ownership up to a maximum of 49 percent. Obviously, Alipay has recognized the difficulties in acquiring payment licenses and operating local payment wallets in foreign markets by itself, and therefore decided that a partial-ownership mode would be more appropriate for its rapid global expansion.

## **6.2. Wechat Pay case analysis**

*Speed* Wechat Pay was officially launched in 2013, and its internationalization started two years later. Thanks to the digital red packet function and the large user base of Wechat messenger, Wechat Pay achieved an extremely rapid development in China in 2014 and 2015, and its market share increased to 20% in 2015.<sup>36</sup> However, compared to the 68.4% market share owned by Alipay, obviously Wechat Pay still had a long way to go in the domestic market. Under such circumstances, Wechat Pay chose to start the internationalization and at the same time compete with Alipay inside China

One of the most important drivers behind the swift international expansion of Wechat Pay seem to be Alipay's internationalization. As mentioned before, Alipay suddenly speeded up the internationalization processes in 2014. Since there's an underlying assumption in the industry that first-mover advantage is crucial, it is understandable that Wechat Pay would not like to lag behind Alipay in the global markets, especially when the target customers were Chinese tourists. Moreover, although Wechat Pay acted as a late comer in the domestic market, the new payment

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<sup>36</sup> "China's Third-Party Mobile Payment Market Shot up 69.7% in 2015", iResearch, April 11, 2016



demand created by its red packet function along with the large user base of Wechat was expected to help Wechat Pay achieve the network effect and grow to be a second leader in China's mobile payment market, even without significant efforts. This enabled Wechat Pay to seek domestic and international development at the same time.

However, the speed of Wechat Pay's internationalization processes also differs when targeting different customers. Wechat Pay started to serve the outbound Chinese tourists in 2015, and it has rapidly extended such services to 49 countries and regions by March 2019. By contrast, it launched its first localized mobile wallet in 2016, and so far, it has only entered two markets in total for the purpose of serving the local people.

**Geography** Wechat Pay has generally focused on serving the outbound Chinese tourists, and therefore its internationalization path also follows the footsteps of Chinese tourists. It first rolled out its services in the most popular destinations among Chinese tourists such as Hong Kong and South Korea in 2015, and gradually expanded into other popular Asian markets. Two years later, Wechat Pay was introduced in the more distant markets including the U.S and Europe. This again confirmed the Uppsala model since the internationalization started from the nearby markets.

However, when Wechat Pay sought to serve the local people in the foreign markets, it has chosen Hong Kong and Malaysia as the target markets. The two markets differ a lot in terms of economic development and financial systems. However, one common thing of them is that both of them own a large number of Wechat users. The entry into these two particular markets suggests that Wechat Pay is interested in exploiting the value of the established Wechat's network.

***Entry mode*** When entering the foreign markets with a purpose to serve the outbound Chinese tourists, Wechat Pay adopted a low-control and no-ownership entry mode that was totally the same as that adopted by Alipay. More specifically, it has formed contractual alliances with a large number of foreign retailing groups, payment processors, banks, etc. The rationale behind Wechat Pay's choice is thought to be similar to that of Alipay.

However, when Wechat Pay sought to serve the local people in Hong Kong and Malaysia, despite the difficulties and risks in operating a localized digital wallet under the strict regulations, Wechat Pay took the form of a high-control mode to enter the local market. Wechat Pay established its own subsidiaries in Hong Kong and Malaysia, applied for the payment licenses all by itself, and launched two localized mobile wallets named Wechat Pay HK and Wechat Pay MY. Wechat Pay's new entries with its own subsidiaries seem to be contradictory to the Uppsala model which predicts an incremental pattern of firms' internationalization. Wechat Pay's choice of a high-control entry mode could be interpreted as driven by its special business model and competitive advantages. After all, in China, Wechat Pay is a digital wallet fully integrated to the Wechat messenger, and its rapid development was also achieved by the large user base of Wechat, which means Wechat Pay's core advantage is established on the messenger, rather than the payment technologies. Hong Kong and Malaysia both have a large base of Wechat users, and of course Wechat Pay would like to fully make use of this precious resource to enter the local markets, and therefore it would still prefer to be integrated with the Wechat messenger, which makes creating a new business model with local companies be perceived as costly for Wechat Pay. Moreover, the large user base also enables an easier and more rapid acceptance of Wechat Pay among local merchants, which

means Wechat Pay could achieve a rapid development as long as the legitimacy is ensured, and therefore a local co-investor is relatively unnecessary for Wechat Pay.

## **6.3. Overall analysis**

### **6.3.1. Speed**

#### **(1) The impact of competition**

In general, the internationalization speed of Alipay and Wechat Pay seems to be related to the domestic competition and the internationalization activities conducted by each other.

Alipay has mainly focused on the domestic market until 2014 when Wechat Pay achieved a significant breakthrough by the launch of the red packet function and started to threaten the dominant position of Alipay. Also in 2014, many other new competitors joined the China's mobile payments race. For example, JD.com, China's second largest e-commerce company launched its own mobile wallet in March 2014, and Baidu, China's leading search engine, also launched a Baidu Pay in April 2014. Therefore, it could be assumed that the increasingly fierce domestic competition has driven Alipay to speed up the internationalization processes.

Wechat Pay rushed to start the global expansion in 2015 when it just achieved certain development in the domestic market. The swift international expansion also seems to be driven by the fierce domestic competition, and additionally by the accelerated internationalization of its main competitor, Alipay, since there's an underlying first-mover advantage in the high-tech industries.

Therefore, it could be concluded that the fierce domestic competition and the fast internationalization of the main competitors drive the Chinese mobile payment companies to speed up their internationalization processes.

## (2) The impact of target customers

Generally, there are two major paths of Chinese mobile payment companies' internationalization. One is to target the outbound Chinese tourists, and the other is to serve the local people. Both Alipay and Wechat Pay are expanding globally by simultaneously targeting these two different groups of customers, and their internationalization speed differs when targeting different customers.

When the target customers are the outbound Chinese tourists, both Alipay and Wechat Pay expanded rapidly into around 50 countries and regions in less than five years. Since the target customers are actually previously existing customers, such type of internationalization requires little local knowledge and involves low risks, and is generally welcomed by the local governments. Therefore, Chinese mobile payment companies could easily enter many markets in a short time.

However, when targeting the local people, which means a localized mobile payment system has to be launched, companies have to conduct comprehensive investigations about the local customer, acquire access to the local network and ensure legitimacy in the local market. In other words, it's much more difficult and riskier to enter a market with a purpose of serving the local citizens. Therefore, so far, Alipay has only invested in nine markets to serve the local people, and Wechat Pay only launched localized mobile wallets in two markets. Such slow speed shows that both companies are cautious about the internationalization through targeting the local people.

### 6.3.2. Geography

#### (1) Geographical choices when targeting outbound Chinese tourists

Targeting the outbound Chinese tourists means that the firms enter certain

markets simply for the purpose of serving the Chinese tourists there, which indicates that their services are only available for Chinese users in those countries, but not for the local citizens. Specifically, Alipay and Wechat Pay have expanded their services into many countries to enable the Chinese tourists there to make purchases by paying Chinese currency through Alipay or Wechat Pay. As two dominant Chinese mobile payment operators, Alipay and Wechat Pay are welcomed by many local merchants and governments, especially in the markets that attract large number of Chinese tourists, since the offer of mobile payment options to Chinese tourists has been proved to be effective in increasing the sales.

Naturally, the countries and regions that are popular among Chinese tourists become the ideal target markets for Chinese mobile payment companies. Generally, the most visited locations by Chinese tourists are Asian countries such as South Korea and Japan, followed by European and American countries. Following this pattern, both Alipay and Wechat Pay first entered the Asian markets that attract large number of Chinese tourists, and then expanded into the European and American markets.

## (2) Geographical choices when targeting local people

As mentioned before, to serve local people in foreign countries is a much more difficult path of internationalization that requires very different capabilities from those required by serving Chinese tourists. Firms need to acquire new knowledge about local customers, compete with local competitors, and ensure legitimacy according to stricter regulations, which means they have to overcome a higher level of liability of foreignness. Under such circumstances, Alipay and Wechat Pay entered different markets based on their different competitive advantages.

As one of the earliest and most successful third-party payment companies,

Alipay has witnessed and led the development of the Chinese mobile payment industry. In the domestic market, Alipay's connection with Alibaba's e-commerce business plays an important role in Alipay's development, but this advantage seems to be negligible to benefit the internationalization of Alipay since the users of Alibaba's e-commerce websites are quite limited outside of China, and Russia, the country that owns the largest number of AliExpress's overseas users, has already banned Alipay from providing services to the local people. Other advantages that could be exploited by Alipay for internationalization include its experience in helping consumers accept mobile payments, its deep understanding of customer needs, and its advanced technological capabilities. These competitive advantages actually act as powerful weapons for Alipay's internationalization especially for entering the emerging countries at similar stages of development as China, since these countries are in urgent need of the experiential and technological capabilities owned by Alipay. In order to better exploit its competitive advantages, we can see that so far, Alipay has entered nine Asian countries, most of which feature a large underbanked population with a quick adoption of smartphones and are seeking to leapfrog the use of credit cards to achieve a cashless society just like China.

As for Wechat Pay, its competitive advantages are generally based on the connection with the Wechat messaging app. In China, Wechat is said to occupy 35% of the time spent on mobile phones<sup>37</sup>, which makes the access to Wechat Pay easier than other payment apps for Wechat users. The large user base of Wechat and the interactive network among the users also enable a more rapid adoption of Wechat Pay. Moreover, Wechat's ecosystem also benefits the development of Wechat Pay since it helps connect the Wechat Pay users and the merchants to achieve a long-term

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<sup>37</sup> MATTHEW BRENNAN, "Wechat Key Trends Report 2017", Mar. 6, 2017.

communication, and thousands of third-party service providers are keeping extending the functions of Wechat Pay to better serve the merchants. Therefore, when exploiting such ownership advantages for internationalization, the markets with a large number of local Wechat users would be the best choices for Wechat Pay to maximize its advantages, and its entries into Hong Kong and Malaysia confirmed such arguments.

### 6.3.3. Entry mode

Chinese mobile payment countries' entry mode choices for internationalization also differ when targeting different customers. The relationship between target customers and firms' entry mode choices are discussed below.

#### (1) Entry mode choices when targeting outbound Chinese tourists

When Alipay and Wechat Pay entered the foreign markets through serving the outbound Chinese tourists, they commonly chose to form contractual alliances with the local partners based on the cooperative agreements.

Their choices of such a low-control entry mode were decided by various reasons. First, although every year more than 100 million Chinese people travel outside China, the related business volume is quite small compared to the overall business scale of these two companies. Second, serving the outbound Chinese tourists could be interpreted as extending the payment services to a new field for the existing Chinese users, and therefore it will bring little increase of the users and have little influence on the local payment markets. Third, the two companies both targeted the Chinese tourists as their first steps into the global market, and therefore were lack of international experience and the access to the local business network. Obviously, Alipay and Wechat Pay would not be willing to make high commitments to the local

markets just to further promote their payment services among the existing customers. Instead, a low-control entry mode that requires low resource commitment but enables immediate access to a large number of local merchants was naturally preferred by them.

## (2) Entry mode choices when targeting local people

When Alipay and Wechat Pay entered the foreign markets through serving the local people, they have chosen different types of entry modes based on their own competitive advantages.

As mentioned before, Alipay's advantages for internationalization mainly included its experience in helping the Chinese consumers develop the habit of paying with mobile wallets, its deep understanding of customer needs, and its advanced technological capabilities. However, the lack of the local knowledge and the difficulties in acquiring the payment licenses are the most important factors that hindered Alipay from providing services to the local citizens. Therefore, it has adopted a moderate-control entry mode such as acquiring minority stakes of a local payment company or establishing joint ventures with a local partner to enter the foreign markets. For the local companies, especially the ones in the countries at similar stages of development as China, they are extremely in need of the capabilities owned by Alipay since they are eager to replicate the success of Alipay in their own countries. Alipay's technical support provided for India's Paytm that helped it greatly improve the risk control management best illustrated how the local firms could benefit from Alipay's capabilities. For Alipay, it could easily gain legitimacy as well as local knowledge through such investments. The relevant risks are also shared with the local partners.

As for Wechat Pay whose competitive advantages are mainly based on its



connection with the messaging app Wechat, in order to fully exploit its core capacity, it has to maintain a business model that is integrated with Wechat in the global markets. This makes the development of a new business model with a local partner becomes unrealistic and costly for Wechat Pay. In the markets with a large number of Wechat users such as Hong Kong and Malaysia, the use of Wechat enables an easy access to Wechat Pay for the consumers, and the large user base of Wechat could also convince the local merchants of a prospective future by collaborating with Wechat Pay. Thus, it is easy for Wechat Pay to achieve a rapid development in these markets as long as the legitimacy is ensured, even without the help of a local partner. Therefore, Wechat Pay has established its own subsidiaries in Hong Kong and Malaysia and applied for the payment licenses all by itself, which represents a high-control entry mode. This also explains why Alipay also acquired the payment license in Hongkong but still chose to establish a joint venture with a local company to promote Alipay HK, while Wechat Pay chose to independently operate Wechat Pay HK.

## **6.4. Overall proposition**

The overall analysis of case studies indicates that Chinese mobile payment companies' internationalization processes and strategies in terms of speed, geography and entry mode differ based on different groups of target customers. Table 3 and Table 4 summarize Alipay and Wechat Pay's internationalization characteristics when targeting different customers.

**Table 3:** Alipay's internationalization when targeting different customers

Internationalization Target customer	Speed	Geography	Entry mode
Outbound Chinese tourists	Fast	Countries popular among Chinese tourists	Low-control (contractual alliance)
Local people	Slow	Emerging countries at similar stages of development as China	Moderate-control (investment alliance/JV)

**Table 4:** Wechat Pay's internationalization when targeting different customers

Internationalization Target customer	Speed	Geography	Entry mode
Outbound Chinese tourists	Fast	Countries popular among Chinese tourists	Low-control (contractual alliance)
Local people	Slow	Countries with a large number of Wechat users	High-control (subsidiary)

Such findings reveal that target customers have important impact on firms' internationalization processes and strategies. In terms of market choices, firms may choose to expand into different markets when targeting different groups of customers. For example, India is an ideal market when Alipay targets the local citizens, but it would become an unsatisfactory market when Alipay targets the outbound Chinese tourists since India is not a popular tourist destination among Chinese people.

As for the entry mode choices, firms would also choose different entry modes when targeting different groups of customers. For example, when targeting the outbound Chinese tourists, Wechat Pay chose to enter the Hong Kong market with a low-control entry mode, but it turned to use a high-control entry mode when targeting the local Hong Kong people. In fact, targeting different customers often requires different types of capabilities and levels of local knowledge. Firms have to consider about the related risks and strategic significance when targeting different groups of

customers, which leads to their different choices of entry modes.

Generally, firms would face different levels of difficulties when targeting different groups of customers during the internationalization processes, and therefore they may expand globally at a fast pace when targeting one group of customers, but may have to slow down the steps when targeting another group of customers.

Although such findings are derived from the case analysis of Chinese mobile payment companies' internationalization, the influence of target customers on firm's internationalization should also work for other consumer firms, since the underlying rationale of this relationship is independent of the characteristics of mobile payment industry or Chinese companies.

Given the above reasoning, the following proposition can be stated:

**Proposition:** When targeting different groups of customers, the internationalization speed, market choices and entry mode choices of consumer firms (B2C firms) would be different.

## 7. Conclusion

In recent years, the use of mobile payments is growing fast across the world, especially in the emerging countries, and China is currently the largest adopter of mobile payments. The Chinese mobile payment companies are not only competing for the domestic market, but are also expanding their services into other countries and regions. This paper serves as an in-depth investigation into the internationalization processes and strategies of the Chinese mobile payment companies by conducting a case study on the two largest players from China - Alipay and Wechat Pay.

According to the analysis of the two cases, this paper suggests that there are two major paths of Chinese mobile payment companies' internationalization. One is to target the outbound Chinese tourists, and the other is to serve the local people, and the firms' internationalization speed, market choices and entry mode choices differ when targeting different groups of customers.

With regard to speed, targeting the outbound Chinese tourists requires little local knowledge and involves low risks, while targeting the local people requires the firms to have a deep understanding about the local customers, gain access to local networks and ensure legitimacy based on stricter regulations, which means it's more difficult and riskier to enter a market through targeting the local citizens than through targeting the Chinese tourists there. Therefore, the two focal companies both expanded globally faster when targeting the outbound Chinese tourists than when targeting the local people. Moreover, the case studies also reveal that the fierce domestic competition and the fast internationalization of the main competitors drive the Chinese mobile payment companies to speed up their internationalization processes.

In terms of market choices, when the target customers are the outbound Chinese tourists, Chinese mobile payment companies are generally welcomed by local merchants and governments, especially in the markets that attract large number of Chinese tourists, since the offer of mobile payment options to Chinese tourists has been proved to be effective in increasing the sales. Under such circumstances, both Alipay and Wechat Pay chose to expand into the countries and regions that are popular among Chinese tourists. However, when the target customers are the local citizens, firms have to make use of their specific competitive advantages to overcome a higher level of liability of foreignness. Therefore, Alipay generally entered the emerging countries at similar stages of development as China where its experiential and technological advantages could be better exploited, while Wechat Pay entered the markets with a large number of local Wechat users to maximize its advantages related to the Wechat messenger.

As for the entry mode choices, Chinese mobile payment companies commonly chose to form contractual alliances with the local partners based on the cooperative agreements when targeting the outbound Chinese tourists. Considering the relatively low strategic significance of the target customers, such low-control entry mode is chosen by the firms because it requires low resource commitment but enables immediate access to a large number of local merchants. However, when the target customers are the local citizens, other different types of entry modes are chosen by the firms based on their own competitive advantages. Alipay chose a moderate-control entry mode such as investment alliance or joint venture because it was lack of the access to the local networks and legitimacy, while the local companies were in need of Alipay's experience and technologies. On the contrary, Wechat Pay chose a high-control entry mode (subsidiary establishment) because it already had accesses

to the local business networks in certain countries and it would not like to leave such valuable resources aside and to develop new business models with the local partners.

Finally, this paper argues that the influence of target customers on firm's internationalization processes and strategies should also work for other consumer (B2C) firms, and proposed that when targeting different groups of customers, the internationalization speed, market choices and entry mode choices of the consumer firms (B2C firms) would be different.

### ***Theoretical Implications***

By investigating the internationalization processes and strategies of Chinese mobile payment companies, this paper has made significant contributions to the development of the literature on mobile payments. For the last thirty years, this research field has seen little progress since the researchers had continued to unnecessarily focus on the same topics (technology and consumer adoption). The internationalization of mobile payment companies represents a relatively new and important phenomenon in this field, but so far, few studies have been done towards it. Therefore, this paper opens a new topic in this field of research, which enables the accumulation of new knowledge about mobile payment companies.

Moreover, this paper also contributes to the development of the literature on firms' internationalization processes. Traditionally, the Uppsala Model, which is perceived as the seminal model of firms' internationalization processes, argues that companies would first start exporting to foreign markets through an agent, and later they would establish a sales subsidiary, and finally begin the production in that country. It also suggests that firms often start exporting to foreign markets with a close psychic distance and later expand into more distant countries. However, this paper identifies the target customers as another important factor that may have

important influence on the consumer firms' internationalization processes. Targeting different groups of customers requires very different types of capabilities and different levels of the commitment to the markets. Therefore, take the market choices for example, a country may be an ideal market for the companies to enter when targeting one group of customers, but may turn into an unsatisfactory market when targeting another group of customers. Similarly, the entry mode choices and the internationalization speed are also influenced by the characteristics of the target customers. Thus, this paper reveals that the target customers should also be taken into consider to fully understand the firms' internationalization processes. Sometimes, certain firms' behavior in terms of the internationalization processes that seems to "violate" the extant literature may actually be influenced by the target customers.

### ***Practical implications***

Since Chinese mobile payment companies are acting as global first-movers in the mobile payment industry, their internationalization processes and strategies could offer important guidance for other mobile payment companies that are seeking internationalization. In particular, the two focal companies of this paper – Alipay and Wechat Pay – typically represent the third-party mobile payment platforms that originate from e-commerce platforms (e.g. Amazon Pay, HelloPay) and instant messaging applications (e.g. Kakao Pay, Line Pay, WhatsApp Pay), the research findings of this study could offer more specific insights for reference for other similar firms.

This paper also points out that in order to make an objective analysis about the competitors' internationalization processes and strategies, firms need to take the influence of the target customers into consideration. For the global mobile payment

companies, it's unnecessary to panic because of the fast internationalization of Chinese mobile payment firms, since the Chinese firms are expanding fast only when targeting the outbound Chinese tourists. However, it's also inappropriate to assume that Chinese mobile payment companies would not grow into strong competitors in the global mobile payment company, since the experiential and technological capabilities of these companies such as Alipay have get recognized in many emerging markets. Although Alipay didn't choose a high control entry mode, its active and aggressive global expansion implies that it is seeking to be the center of a global, or at least regional payment network.

This paper also provides important implications for the worldwide governments. Since Chinese mobile payment companies are expanding globally in a fast pace, it's necessary for the governments to establish the mobile payments-related regulations even if the domestic mobile payment markets are still underdeveloped. Countries like Thailand have already experienced the entries of Chinese mobile payment companies into their countries before the relevant regulations are introduced. Moreover, this paper also suggests that the worldwide governments should deal with the global expansion of Chinese mobile payment companies more cautiously. A welcoming attitude may bring about risks of the local payment market being controlled by a foreign company, while a rejective attitude may lead to the decrease of Chinese tourists' consumption as well as the isolation from the experience and technologies owned by those firms that may enable a faster development of the local mobile payment industry.



### ***Limitations and future studies***

As a first and suggestive step in exploring the internationalization processes and strategies of mobile payment companies, this paper has several limitations, which nonetheless point promising avenues for future studies.

First, the history of the internationalization of Chinese mobile payment companies is still very short, and therefore it's hard to evaluate the performance of these firms' internationalization, and their strategies may change a lot in the near future. Therefore, future studies may be provided with great opportunities to learn about the relationship between the internationalization strategies and performances of mobile payment companies. Research on the internationalization processes of these firms from a long-term perspective is also warranted to modify the findings of these paper.

Second, although the two focal companies of this paper represent two typical types of mobile payment companies, still there are many other types of mobile payment companies, such as the mobile phone device-based payment companies including Apple Pay, Sumsung Pay, Huawei Pay, etc. Future studies could focus on the internationalization processes and strategies of these different types of mobile payment companies

Finally, the relationship between the target customers and the consumer firms' internationalization processes and strategies is developed by the evidence from Chinese mobile payment companies. Although the underlying rationale of this relationship is argued as being independent of the characteristics of mobile payment industry or Chinese companies, more evidence from other industries and countries is still needed to confirm that this relationship also works for other consumer firms.

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## 국 문 초 록

# 중국 모바일 결제 기업의 국제화 과정 및 전략에 관한 사례연구: 알리페이와 위챗페이를 중심으로

서빙선

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중국 모바일 결제 기업의 국제화는 모바일 결제 산업에서 일어나고 있는 새로운 현상이다. 본 논문은 속도, 위치 선정 및 진입 방식의 측면에서 중국 모바일 결제 기업의 국제화 과정 및 전략을 분석하였다. 구체적으로 본 논문은 알리바바의 전자 상거래 플랫폼에서 비롯된 알리페이와 텐센트의 메시징 플랫폼에서 비롯된 위챗페이에 대한 사례연구를 통해 중국 국내 경쟁이 치열해지고 주요 경쟁자의 국제화 속도가 빨라지면 중국 모바일 결제 기업들이 자신의 국제화 속도를 늘리는 경향이 있다는 것을 제시했다. 또한 본 연구는 타겟 고객을 다르게 설정할 때(중국인 관광객 혹은 현지인) 중국 모바일 결제 기업들의 국제화 속도, 위치 선정 및 진입 방식이 달라지는 것을 밝힘으로써 타겟 고객이 중국 모바일 결제 기업의 국제화 과정에 중요한 영향을 미치는 것을 도출했다. 더 나아가 이러한 관계가 다른 B2C 기업에도 존재할 것을 제시했다. 본 논문은 모바일 결제와 기업의 국제화 과정에 관한 이론 발전에 기여하였고 여타 글로벌 모바일 결제 기업 및 유관 기관에 중요한 시사점을 제시해주었다.

**주요어:** 모바일 결제, 국제화 과정, 국제화 속도, 위치 선정, 진입 방식,  
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